

STATEMENT OF
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CHAIRMAN AND PRESIDENT (ACTING)
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY
AND THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

November 10, 2005

Chairman Pryce, Chairman Kelly, Congresswoman Maloney, Congressman Gutierrez,
Members of the Subcommittees:

I am pleased to have this opportunity to appear before you today to bring you up to date on what we are doing at the Export-Import Bank of the United States to help create and maintain U.S. jobs by financing U.S. exports that otherwise would not go forward. The Bank steps in when financing is not available or because Ex-Im Bank financing support is necessary to level the playing field for U.S. exporters competing against companies in other countries supported by Ex-Im Bank's foreign counterparts.

Today, America's exporters and their workers could use a boost. The international economic environment is arguably more competitive than at any time since Ex-Im Bank's founding 71 years ago, and the Bank is needed now more than ever. "Globalization" is a topic that is debated in the media every day, and no less frequently in the halls of Congress. If there is one point in particular that I want to stress to you today, it is that Ex-Im Bank is a critical tool in the U.S. government's arsenal when it comes to keeping U.S. exporters competitive and U.S. workers employed. To help U.S. workers and exporters, we at Ex-Im Bank are continuing to do our part to strengthen the American economy by helping to preserve and expand the U.S. jobs base.

To achieve our mission, however, Ex-Im Bank itself must remain competitive with our foreign counterparts. As we go through reauthorization over the course of the next year, we ask you to bear in mind the need to give Ex-Im Bank the resources and authority to keep U.S. exporters competitive in the international marketplace.

THE EX-IM BANK MANDATE AND PERFORMANCE

Ex-Im Bank helps finance the export of goods made in the United States and services performed by U.S. workers. Ex-Im Bank plays two roles in supporting U.S. exports. We provide financing support for U.S. exports that the private sector will not finance, often because the transactions are too small or the buyer's market is too risky. Ex-Im Bank also supports U.S. exports that are competing against foreign exports backed by a foreign

export credit agency. Ex-Im Bank financing ensures that the overseas buyer makes its sourcing decision based on the price and quality of the products and services offered by the exporter, not the availability or cost of financing. For most of our larger transactions, Ex-Im Bank provides a guarantee to a commercial bank that lends directly to the overseas buyer.

Ex-Im Bank also plays a key role in encouraging and supporting U.S. small business exporters. For small business exporters and smaller export deals, we provide a variety of insurance policies that allow exporters to extend term financing to their buyers, thus eliminating up front cash payments. We also offer a working capital guarantee program, which helps provide exporters, especially small business exporters, with the capital they need to meet export orders.

Ex-Im Bank helps give U.S. exporters a fair chance to win export contracts by providing competitive financing. In the tough world of international competition, if a U.S. exporter loses an export sale, those jobs go overseas to its foreign competitor. Since many multinational corporations can source exports from more than one country, Ex-Im Bank financing is critical to keeping jobs here at home. If Ex-Im Bank can supply financing in the face of competing financing from Hermes in Germany, EDC in Canada, Sinosure in China or the export credit agencies in many other countries, then U.S. exporters will remain competitive.

In FY'05, Ex-Im Bank authorized \$13.94 billion to support \$17.86 billion in U.S. exports. This represents 3,128 transactions, of which 2,617 -- over 80% -- directly benefited small business. Over the last three years, we have supported about \$50 billion in U.S. exports, and \$473 billion since the Bank's creation. Ex-Im Bank-supported transactions comprise a significant percentage of total U.S. exports to certain markets. For instance, from FY'02 to FY'04, we supported 76% of U.S. capital equipment exports to Romania, 35% to the Dominican Republic, and 20% to Algeria. Unlike many foreign export credit agencies, we do not compete with the private sector. As a result, Ex-Im Bank often becomes involved in deals that are not attractive to commercial lenders because they are in higher risk markets.

In carrying out its mandate, Ex-Im Bank offers great leverage for the U.S. taxpayer. For every taxpayer dollar used in FY'05, Ex-Im Bank supported \$57 in U.S. exports. This compares to \$50 last year and \$35 the year before. For every administrative budget dollar used, Ex-Im Bank supported over \$245 in U.S. exports. Ex-Im Bank achieved this performance without adding any employees and without competing with private banks, while responsibly managing taxpayer resources. For every transaction we approve, we have to find that there is a "reasonable assurance of repayment." The Ex-Im Bank has a claims rate comparable to many commercial banks.

LEGISLATIVE ISSUES

We are pleased that recent legislative actions on our FY'06 appropriations have reinforced principles essential to Ex-Im Bank's functioning. As noted above, Ex-Im

Bank must have the tools necessary to offset foreign competition. These tools include a fully funded administrative budget so that Ex-Im Bank may conduct important outreach efforts to U.S. exporters and foreign buyers. It is also essential that U.S. exporters have confidence that Ex-Im Bank's commitments carry the full faith and credit of the U.S. government and will be honored in all circumstances. We listened to all who had a stake in these issues and did our best to come to fair resolutions. The good work done by all of those involved will be a great help to the Bank going into next year.

We are especially pleased that the Administration request for \$1 million to fund the office of Inspector General was approved. While Ex-Im Bank has in place a fully functioning audit committee and has both an internal audit unit and an external audit firm under contract, Congress has determined that an I.G. would be helpful to Ex-Im Bank operations, and we agree. We hope for a timely nomination and urge prompt action by the Senate.

SMALL BUSINESS

Ex-Im Bank's Charter requires the Bank to encourage the participation of small businesses in international commerce. In this regard, the Charter requires the Bank to make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns, which shall be not less than 20 percent of such authority for each fiscal year.

I am pleased to report that our latest figures regarding small business confirm that Ex-Im Bank is on the right track. In FY'05, Ex-Im Bank completed 2,617 transactions, with a value of \$2.66 billion, involving direct small business exports. By way of comparison, in FY'02, the year of the Bank's last reauthorization, the Bank approved 2,154 small business transactions totaling \$1.8 billion, or 17.6% of total authorizations. In FY'03, the figures were 2,258 transactions totaling \$2.1 billion, or 19.8% of total authorizations; and in FY'04, Ex-Im Bank financed 2,572 transactions totaling \$2.257 billion, or 16.9% of total authorizations. Thus, in the past four years, Ex-Im Bank has increased its direct small business transactions by over 21% measured by number of transactions, and over 47% measured by dollar volume. Ex-Im Bank's efforts have resulted in a steady increase in small business throughout this period. It should also be noted that small businesses derive substantial sales from their indirect role in larger Ex-Im Bank transactions.

The Bank's Working Capital Guarantee Program, which benefits primarily small business exporters, had a record year in FY'05. Of the Bank's total working capital authorizations of \$1.096 billion, 78% or \$850 million directly benefited small business exporters.

The language in the Charter requiring the Bank to make available 20% of its aggregate authority for the direct support of small business has to be considered in context. First, Ex-Im Bank is demand driven. In other words, while Ex-Im Bank does as much as possible to build awareness of its programs and to make its programs user friendly for small businesses, we can play a role only in export transactions that meet our criteria,

which include the lack of available commercial financing. Second, Ex-Im Bank has never turned down a small business transaction based on a lack of budgetary resources. Ex-Im Bank's goal is to support as many small business transactions as possible, and the growth in the Bank's small business authorizations demonstrates that we have made significant strides in that regard.

Ex-Im Bank has also taken other steps to increase its support for small businesses as well as women- and minority-owned businesses. Ex-Im Bank has named a Vice President for Small Business to manage a larger staff focused solely on small business outreach. In addition, the Bank's regional offices in New York, Florida, Illinois, Texas and California are now dedicated solely to small business outreach and support.

We have developed a new strategic approach to small business outreach. This approach includes:

- a. Increasing core distribution by adding new working capital lenders, and expanding/energizing City/State partnerships.
- b. Identifying new, non-traditional organizations with which to collaborate.
- c. Utilizing selective, targeted marketing campaigns.
- d. Adding new brokers and increasing the constructive role of existing brokers.

Ex-Im Bank believes that we are complying with both the letter and the spirit of our Charter with respect to small business, but we are prepared to work with Congress in our upcoming reauthorization to make changes that, consistent with Ex-Im Bank's broad mission and resources, position the Bank to maximize support for small business transactions.

My comments concerning Ex-Im Bank's administrative budget bear repeating in the small business context. Outreach, new initiatives and training in technology are necessary to make our small business processing more efficient and transparent. All of these initiatives are dependent on full funding of Ex-Im Bank's administrative budget.

ECONOMIC IMPACT

Through the economic impact process, the Bank seeks to determine whether a transaction under consideration might cause substantial harm to U.S. production or employment, or result in production of a good subject to specified trade measures. While Ex-Im Bank's consideration of economic impact pre-dates our 2002 reauthorization, Congress made substantial changes to the economic impact section of our Charter in 2002. Following those changes, in March 2003, Ex-Im Bank issued economic impact procedures -- after a public notice and comment period -- to ensure that transactions are screened for economic impact implications and evaluated in a transparent manner. The method for determining economic impact is a comprehensive analysis that draws from a wide range of sources. It involves issues such as the existence of countervailing duties and other trade actions, whether the supported export would result in the production of exportable

goods, an assessment of the global supply and demand for the good to be produced, and the broad competitive impacts on U.S. industry from increased production.

Economic impact is the most significant issue facing Ex-Im Bank, because we must weigh the competing interests of exporters seeking Ex-Im Bank support with those of other U.S. companies that may be harmed by expansion of foreign production. While Ex-Im Bank understands the need to conduct this analysis, as well as the importance of the economic impact issue to Congress, U.S. industry and the U.S. exporting community, no other export credit agency is subject to similar restrictions, and specific economic impact decisions may impact future procurement by foreign buyers.

In recent years, economic impact determinations have affected financing support for many exports, including steel-making equipment, glass-making equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment, and others. I anticipate that Congress and Ex-Im Bank will confront the economic impact question again. Whatever the outcome, we need to agree on a fair and transparent process. When the Bank makes a decision to support a transaction by extending the full faith and credit of the U.S., we feel that it is very important that the decision be final and respected by all interested parties.

KEEPING THE COMPETITIVE EDGE IN NEW PRODUCTS AND SPECIAL MARKETS

Since we at Ex-Im Bank are in the business of helping create and sustain U.S. jobs, we see it as our constant challenge to come up with new ways to help American companies become more competitive. The tough global market rewards boldness -- and so Ex-Im Bank sustains jobs by helping American companies break new ground by making exports work in some difficult markets.

For the United States to remain the world's economic superpower, we cannot only work to make sure our technologies are the best in the world today. We also must look ahead to the future and develop new, innovative products for tomorrow. A major example of Ex-Im Bank's forward-looking approach is our environmental exports program. Over the past four years, Ex-Im Bank has authorized nearly \$1.1 billion for environmentally beneficial exports. Across the world, the market is growing for renewable energy, and Ex-Im Bank is helping ensure that U.S. exporters can compete for the contracts anywhere there is a job to do. Over the last year, Ex-Im Bank supported an OECD agreement to extend terms for renewable energy and water projects to 15 years. As a result, it is easier for U.S. companies to compete for solar, biomass, wind and other forms of renewable energy projects.

Making U.S. companies more competitive in environmental technologies leads to social as well as economic benefits. The same can be said of Ex-Im Bank's financing for U.S. companies working to compete in some of the difficult markets of sub-Saharan Africa. Trade in the region is good for American exporters and beneficial to the economies of the region. In FY'05, Ex-Im Bank supported 115 transactions in 20 countries in the region,

totaling \$461.8 million. While the dollar volume of transactions to this region has increased by 36.4% over the FY'04 volume, there has been a decrease in the number of transactions, due primarily to a decline in applications from Nigerian banks, which have historically been active in Ex-Im Bank programs. The Nigerian banking sector has undergone major reform and consolidation in the past year, and we expect business to rebound significantly. We have always felt that there is great potential for U.S. exporters in sub-Saharan Africa, and the Bank is dedicated to helping U.S. companies benefit from it.

As a nation, our institutions work best if they reflect the society in which we live. This holds true for business. It is easier to successfully market a product or services to a community if you know that community and are a part of it. With this in mind, we at Ex-Im Bank are striving to help the American export community be more competitive by working to increase our transactions involving women- and minority-owned businesses. For FY'05, our authorizations in this area were \$353 million, compared to \$296 million in FY'04. We have increased our outreach to achieve this goal. In FY'05, Ex-Im Bank staff participated in 57 speaking engagements and attended 13 conferences expressly aimed at these target audiences, and we are committed to continuing these efforts.

One example of a success is the winner of Ex-Im Bank's Small Business Exporter of the Year Award in 2004 -- Bluefield Associates of Ontario, California. It is a minority-owned small business manufacturer of skin care products that uses Ex-Im Bank's multibuyer export credit insurance and working capital guarantees to export to 12 countries in West Africa and Europe. The company was founded in 1991 and has about 50 employees, 32 of whom were added to the payroll after the company began using Ex-Im Bank's small business insurance policy in 1999. Over the five years ending in 2004, the company increased its sales by more than 100% and tripled the number of its foreign buyers.

CONCLUSION

My comments have just touched on some of the areas in which this Committee will take a leading role during next year's reauthorization process.

None of us is able to predict the future, but I know that international economic conditions coupled with the particular concerns of Washington will, as always, pose challenges for the Export-Import Bank. One thing I can say with confidence is that our institution will rise to meet them as we always have. We have been able to meet challenges and solve problems because what we do makes sense -- creating and maintaining jobs here in the United States by supporting exports that would not otherwise go forward. We have supported exports large and small throughout the country. And with your help, we will continue to do so in the future.

Thank you.

Ex-Im Bank Small Business Authorizations

